

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Voluntary - Public

Date: 11/18/2009

GAIN Report Number: CH9089

China - Peoples Republic of

Post: Beijing

Commodity Market Update

Report Categories:

Agricultural Situation

Approved By:

William Westman

Prepared By:

Katie Rohm and AgBeijing Staff

Report Highlights:

This report includes updates for a variety of commodity markets within the Peoples Republic of China. These markets include dairy, pork, poultry, forestry, wheat, corn, cotton, and oilseeds. Production, supply, and distribution tables will be updated as necessary.

Dairy: China's milk consumption and production are gradually recovering from the effects of the September 2008 melamine contamination. Overall, we expect production this year will fall 16 percent to below 30 million metric tons, the lowest level since 2005. Sharply lower production due to weak demand early in 2009 will be partially offset by rapidly improving market conditions in the latter half of the year. A sharp rise in imported milk powder prices this fall has encouraged a rebound in demand for local milk. The current rebound in production will continue through 2010, with total shipments estimated to rise 10 percent to nearly 33 million metric tons (MMT). While representing a small fraction of total Chinese milk consumption, fluid milk imports are forecast to continue higher, rising by

one-fourth in 2010 to 15,000 MT, in response to continued strong demand from expats and other high-end consumers. Meanwhile, Chinese exports of dairy products will continue to slide in 2010, with fluid milk falling 32 percent to 13,000 tons, down from almost 50,000 tons in 2007. Overseas consumer perceptions about Chinese dairy product safety are hampering recovery in sales through export channels.

FAS/Beijing forecasts China's beef production will continue to decline in 2010, down five percent to below 5.5 MMT, following a six-percent reduction in 2009. Continued low beef producer returns are dampening beef cow production in China. Fueled by lower Chinese production and strong consumer demand, imports of U.S. beef through gray channels are forecast to approach \$200 million in 2009, making China's gray channel trade our fifth largest beef export market.

Pork: FAS/Beijing forecasts China's pork production in 2010 will increase nearly four percent to 50.3 MMT from an estimated 48.5 MMT in the previous year, fueled by government sow subsidies and improved porcine reproductive and respiratory syndrome (PRRS or blue ear disease) control. An oversupply of hogs in 2009 pushed swine and pork prices down considerably, with the benchmark average retail price in 36 cities falling to a three-year low in June of just over 10 RMB per kilogram. The price decline spurred government purchases of 120,000 MT in mid-June under a market intervention scheme, as the pork to corn price ratio fell below the intervention trigger level of 5.5 RMB. Prices have since rebounded strongly, up 10 percent in October compared to early June. Dampened by abundant local supplies, China's pork imports are expected to continue falling to an estimated 120,000 MT in 2010. Meanwhile, Chinese pork exports are forecast to increase four percent to 240,000 MT.

Poultry: FAS/Beijing projects modest gains in China's 2010 broiler meat production, rising three percent to 12.5 MMT, following an estimated two percent increase in 2009. Domestic demand continues to rise steadily, fueled by rising sales through fast food chains and other foodservice channels. Post forecasts China's total broiler imports in 2010 to decrease three percent to 360,000 MT, following an estimated seven percent decline in 2009. While overall imports continue to slide, demand for imports from the United States has risen, up 10 percent so far in 2009 on top of record sales in 2008. However, the recent opening of China to direct sales from Brazil may challenge continued steady gains in U.S. sales in the near term.

Forestry: China's softwood demand is driven by the domestic construction market. Russia still dominates China's imported softwood logs; however, its market share is declining. Softwood log imports from New Zealand increased 168 percent in the first nine months of 2009 due to its competitive prices. China's softwood lumber imports increased 81 percent in 2009 driven by the construction market, low-end furniture/flooring manufacturing, and their competitive price in comparison with logs. Imports from Canada increased 135 percent from January-September 2009 as a result of competitive prices. Hardwood demand is declining because of the export decline in processed wood products. Imports of temperate hardwood from the United States declined 32 percent in the first nine months. Russia, the major competitor of U.S. temperate hardwood lumber in the Chinese market, increased 31 percent during the same period. Industry attributed this increase to lower prices of the Russian products. The profit margin of China's wood processing sector is very low, therefore buyers are quite price sensitive.

Wheat: Wheat production for marketing year (MY) 2009/10 is estimated at 106 MMT, a reduction of six percent from the previous year due to adverse weather patterns during multiple growth stages. The four factors that adversely impacted the winter wheat crop in 2009 were: winter drought, plant disease, hot and dry wind before harvest, and rain damage around harvest time. Despite a reduction in wheat production in MY 2009/10, wheat stocks are estimated to remain at adequate levels. Out of food security concerns and the desire to maintain farmer incomes, the government will continue to encourage grain production by raising floor prices in MY 2009/10 and MY 2010/11. Most grain reserves are held in state-owned silos and the government decides on the timing and price of the auctions. Because the floor price is artificially boosted by domestic wheat prices, wheat imports can become price competitive in affluent, coastal southern provinces, when international grain prices fall. However, only the private sector took advantage of this price. Most of the wheat imports in MY 2009/10 use private Tariff Rate Quotas (TRQ). State trading accounts for 90 percent of the total TRQ (9.6 MMT), and the remaining 10 percent is reserved for the private sector.

Corn: Corn production in MY 2009/10 is estimated at 150 MMT, down nine percent from the previous year. Despite various official reports on a bumper corn harvest, FAS/China estimates that corn production in 2009 dropped nine percent from the previous year to 150 MMT. Based field observations in major corn producing provinces, yield was substantially impacted by adverse weather patterns. These patterns include prolonged drought at critical growth stages and cold temperatures in July-August in some parts of the Northeast.

Cotton: MY 2009/10 domestic cotton production is estimated at 6.8 MMT, down 15 percent or 1.2 MMT over the previous year. This production decrease can be attributed to the decrease in arable land (5.2 MHa), down 13 percent compared to the previous year, and reduced yield as a result of unfavorable weather conditions in three leading cotton-producing regions. Cotton imports in MY 2009/10 are forecast to exceed 2.5 MMT, up from 1.5 MMT in MY 2008/09. The reduced demand for textile products by major importing countries because of the economic slowdown attributed to smaller cotton imports in MY 2008/09. However, cotton imports in MY 2009/10 are expected to be boosted by increased demand of textile products. According to the National Statistics Bureau, yarn production in September reached 2.1 MMT. Total yarn production in the first nine months of 2009 stood at 17.2 MMT.

Oilseeds: China's MY 2009/10 domestic soybean production is estimated 1.1 MMT lower than the previous year, while rapeseed production is estimated to increase by 1.2 MMT. Soybean imports in MY 2009/10 are forecast to decrease moderately to 39 MMT because of high carry-in stocks for both soybeans and rapeseed. The Chinese government's purchase of more than 7 MMT of domestic soybeans stimulated a record import of soybeans at 41.1 MMT in MY 2008/09. This is an increase from 37.8 MMT imported the previous year.